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Amber Waves magazine covers the full range of the agency's research and analysis, including the economics of agriculture, food, rural America, trade, and the environment. ERS publishes *Amber Waves* five times a year (in February, April, June, September, and November) both in print and on the Internet.

U.S. Tobacco Industry Responding to New Competitors, New Challenges

Tobacco growers are facing tough times as cigarette consumption shrinks and foreign producers edge them out of formerly lucrative markets. Not only have U.S. exports of tobacco leaf declined, but cigarettes manufactured in the United States now contain more foreign tobacco than ever before—nearly 50 percent. Why is U.S. tobacco losing ground to other countries? Price, mainly. With cheaper tobacco available on the world market, U.S. tobacco is losing global and domestic market share. *Thomas C. Capehart, Jr.; (202) 694-5311; thomasc@ers.usda.gov*

Multilateralism and Regionalism: Dual Strategies for Trade Reform

Why does the United States pursue both multilateralism and regionalism? This dual trade strategy is grounded in two fundamental ideas: (1) trade reform at either level is beneficial to the U.S. economy, and (2) each venue for trade liberalization offers unique opportunities. Multilateralism is clearly beneficial in that it engages virtually every country in the world in a mutual process of trade reform. In contrast, regional trade agreements (RTAs) are exclusive and discriminatory, but they are capable of much deeper trade reforms since their adherents are fewer, more like-minded and committed, and often linked geographically. *Mary E. Burfisher; (202) 694-5235; burfishr@ers.usda.gov*

Nonmetro Poverty: Assessing the Effect of the 1990s

The 1990s ushered in many changes in America that may have either aided or burdened the poor in nonmetropolitan (nonmetro) areas. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 was designed to move poor people from welfare to work by imposing work requirements and a 5-year lifetime limit on Federal benefits. The law also limited who was eligible to receive assistance. These changes in welfare policy affected the poor both adversely (by reducing benefits) and positively (by providing stronger incentives toward achieving self-sufficiency). The overall effect of these two opposing forces on poverty is the subject of contentious debate. *Dean Jolliffe; (202) 694-5430; jolliffe@ers.usda.gov*

Production Costs Critical to Farming Decisions

Policymakers and producers grow nervous when commodity prices dip, as they did during 1998-2001. Weather, breeding cycles, world stocks, and consumption swings can all make for uncertain farm income, and a surefire buffer against fluctuations is impossible. However, farmers make a host of decisions that can predispose them to weathering rough patches. Farmers make daily decisions about input use, seasonal decisions about what to plant, annual decisions about farmland rental, and multi-year decisions about ownership and upkeep of land, machinery, and facilities. Farmers' decisions affect agricultural production, prices, and costs, the quality of the environment, the demographics of rural areas, and more. Farmers' decisions, in turn, are affected by how production costs compare with expected returns and nonmonetary benefits (such as a rural lifestyle) and by the characteristics of the farm (such as type, size, specialization, and location) and farm operator (age, education, and off-farm employment). *William D. McBride; (202) 694-5577; wmcbride@ers.usda.gov*

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How to Obtain a Report

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North American Agricultural Market Integration and Its Impact on the Food and Fiber System *(AIB-784)*

www.ers.usda.gov/publications/aib784/
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Economic change and market dynamics have fundamentally altered the structure and performance of agricultural markets in the United States, Canada, and Mexico in recent years. Many events have helped shape the current North American food and fiber system, including the rapid pace of technological change, shifts in domestic farm policies, the Canada-U.S. Free Trade Agreement (CUSTA), the North American Free Trade Agreement (NAFTA), and multilateral trade negotiations in the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). As a result of these events and the forces of demand and supply, many commodity, product, and input markets on the continent now operate in a more efficient and integrated way.

The North American Agricultural Market Integration and Its Impact on the Food and Fiber System (NAAMI) Symposium was held in Washington, DC, on November 6-7, 2000, to examine market unification of U.S., Canadian, and Mexican agricultural economies. This report synthesizes information exchanged at the NAAMI Symposium and obtained from a review of the literature on spatial and temporal integration. It explains why more integrated markets often benefit society, identifies obstacles that continue to constrain markets in North America from functioning more in unison, gauges the progress achieved in rendering continental markets more economically unified, and identifies challenges and opportunities that could deepen market integration in North American agriculture.

Key findings:

- Trade patterns show the growing importance of continental trade in North American agriculture. Since the advent of CUSTA, the real (1989-91) value of agricultural trade among the United States, Canada, and Mexico increased 120 percent between 1987-88 and 2000-01, rising from $11.2 billion to $24.6 billion. This expansion is significant because the growth of intra-NAFTA agricultural trade has been more rapid than NAFTA-member exports to countries outside North America.

- Growth in foreign direct investment (FDI) within the NAFTA region has increased continental integration of agricultural food and fiber markets. Expansion of FDI has been particularly rapid in the food processing industry. This expansion has transferred cutting-edge technology and has increased the domestic supply of relatively scarce resources that constrained output in this industry. Even though FDI has outpaced cross-border food trade, it has not displaced overall trade in processed foods. Empirical analysis reveals that FDI has contributed positively to U.S. exports of processed foods.

- U.S.-Canadian agricultural markets are well integrated for most, but not all, commodities. U.S.-Canadian markets for spring wheat and feed barley are highly integrated and have become more unified following CUSTA legislation and reform of the Western Grain Transportation Act in Canada. U.S. and Canadian beef and pork product markets are also well integrated, with pork more so than beef primarily because of the lack of national grading equivalencies for beef. U.S. and Canadian poultry markets are, by contrast, segmented markets—the result of supply-management policies in Canada.

- The increased flow of Mexican immigrants into the United States points to greater integration of the U.S.-Mexican labor market. One in 25 Mexicans crossed the U.S.- Mexican border during the 1990s. Employment of low-wage Mexican laborers in U.S. agriculture helped to keep production costs low on U.S. produce farms and in U.S. meatpacking plants. The flow of money sent to Mexico by Mexicans working in the United States has become much larger than the inflow of both private investment and money provided by multilateral development banks. Conditions in rural Mexico would be significantly worse if Mexican migrants were unable to work in the United States.

- Recent shifts in policy and changes in technology have facilitated structural unification within certain industries. CUSTA/NAFTA removed obstacles that were responsible for segmentation of national fruit and vegetable markets in North America. The establishment of innovative contractual and institutional arrangements efficiently linked produce farmers in all three countries to retailers throughout the continent. Greater integration of the continental fruit and vegetable industry is likely to have generated increasing returns because per-unit variable costs typically increase little, if at all, with market expansion.

- Larger and freer agricultural markets in North America have generated substantial benefits to society. The post-CUSTA/NAFTA rise in bilateral complementarities—complementarities that link one country's export specializations with its partner's import shares across the spectrum of all traded goods—provides empirical evidence that change in the United States, Canada, and Mexico has increased the efficient use of available agricultural resources. Mexican farmers are now exporting, for example, more papaya, strawberries, grapes, watermelon, and other fruits in which Mexico has comparative advantages to the United States and Canada, where demand for fresh produce is rapidly expanding. And American and Canadian farmers are better able to meet Mexico's demand for corn and oilseeds by offering Mexican consumers lower prices for these staple commodities.

- More could be done to deepen market integration within North America. National boundaries continue to segment country markets. The continental market remains less integrated than the national economies of the United States, Canada, and Mexico. Prior to the formation of CUSTA/NAFTA, within-country trade was about 20 times larger than between-country trade in North America, after controlling for the influence of distance and market size. By 2000-01, within-country trade was about 12 times greater than

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U.S. Fresh Produce Markets: Marketing Channels, Trade Practices, and Retail Pricing Behavior *(AER-825)*

www.ers.usda.gov/publications/aer825
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By all accounts, marketing fresh fruits and vegetables has been transformed. First, consumer demand has increased for greater variety and quality of fresh produce. Second, supermarkets have merged, acquired new stores, and grown larger. Third, anecdotal evidence suggests that the role of merchant wholesalers in produce has become less important while that of the foodservice sector has increased. And fourth, nonprice provisions such as marketing fees have grown increasingly common in transactions between retailers and grower-shippers.

ERS's study of the produce industry aimed to answer several questions. What is the current state of the produce industry? How do produce shippers and retailers conduct business? And is the increased use of different types of marketing fees the result of growing retailer influence or business efficiencies? The scarcity of public data led ERS to use a three-pronged approach.

1) ERS collaborated with Cornell University, and exhaustively searched the public domain for data describing the fresh produce industry; these results are published in the ERS report, ***Understanding the Dynamics of Produce Markets: Consumption and Consolidation Grow***, August 2000.

2) Because data on transactions between shippers and retailers are scarce, ERS—in collaboration with the University of California (Davis), University of Arizona, and University of Florida—conducted interviews of shippers, retailers, and wholesalers for information on marketing of grapes, oranges, grapefruit, tomatoes, lettuce, and bagged salad. While the small number of interviews warrant caution in interpreting the findings, the research enhances understanding of recent changes in produce marketing. Results from this portion of the project are published in ***U.S. Fresh Fruit and Vegetable Marketing Emerging Trade Practices, Trends, and Issues***, January 2001.

3) ERS contracted studies with university researchers to assess the pricing by retailers for some fresh produce commodities in selected markets. Timothy Richards and Paul Patterson (Arizona State University) investigated supermarket retailer behavior in the selling and buying of Washington apples, California oranges, California grapes, and Florida grapefruits in ***Competition in Fresh Produce Markets: An Empirical Analysis of Channel Performance***, published by ERS in September 2003.

Richard Sexton, Mingxia Zhang, and James Chalfant (University of California, Davis) examined the market for California and Arizona iceberg lettuce, packaged salads, and Florida and California tomatoes in ***Grocery Retailer Behavior in the Procurement and Sale of Perishable Fresh Produce Commodities***, published by ERS in September 2003.

U.S. produce markets have evolved considerably since the 1980s. Per capita consumption of fresh fruits and vegetables increased 6 percent between 1987 and 1995, and 8 percent between 1995 and 2000. New products were introduced to meet burgeoning consumer demand, and, as a result, the average produce department is larger. The marketing channels also have changed. The share of produce volume sold directly by grower-shippers to retail supermarkets has increased, as have sales to the foodservice sector.

Mass merchandisers, emphasizing everyday-low-price strategies, have provided new competition for supermarkets. In response, large supermarket retailers have emphasized customer service while pursuing efficiency gains and lower capital investment costs. Many of them have merged or acquired other chains, citing the potential for lower costs through streamlined operations, volume discounts in buying, and exclusive partner relationships. Consolidation through mergers and acquisitions by grocery retailers has produced a significant increase in the share of total U.S. grocery store sales by the largest firms.

Coincident with these changes were new provisions in retailer-shipper transactions. Most controversial is the "slotting fee," where suppliers pay a lump sum to retailers for introducing their new products to the supermarket shelves. The use of fees and services is controversial. Some argue that they are a manifestation of retailers' market power over shippers, while others suggest the various fee and service requests have efficiency-based motives. Because both points of view are valid, empirical evidence is needed to provide greater insight into the factors underlying fees and retail consolidation.

To date, no comprehensive empirical studies have examined these issues, largely because transaction data are proprietary. Thus, the issue remains unresolved.

To assess emerging practices in the produce sector, such as retailers' requests that shippers pay slotting fees or provide services like customized containers, it helps to understand the importance of retailer market power. If they possess little or no market power, then fee and service requests must be driven by efficiency concerns, in which case policy response is inappropriate.

If market power exists, fees and services may be a symptom of that market power, but the appropriate policy remedies may not focus on disallowing use of such fees and services so much as the exertion of market power itself. If retailers hold market power over grower-shippers or consumers, banning the use of particular fees and/or services may simply cause that power to be manifested elsewhere, such as in lower acquisition prices, and perhaps at the cost of reduced efficiency.

Econometric analysis indicates that, for some commodities, retailers do influence prices received by fresh produce shippers and paid by consumers. Retailer ability to

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Structure of the Global Markets for Meat *(AIB-785)*

ww.ers.usda.gov/publications/aib785/

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Poultry meat, beef, and pork are the three most important meats in world trade. The United States, the European Union, Australia, Canada, Brazil, and Argentina are leading meat exporters, and Russia, Japan, China (including Hong Kong), Mexico, and the United States are leading importers.

Meat trade flows among countries and world regions are determined largely by differences among countries in their resource base, preferences for meat types and cuts, the extent and character of barriers to trade, and the industry structure.

Those parts of the world with low-priced inputs—feed, labor, equipment, etc.—have competitive advantages in meat production. Land for forage and grain production is important for success of livestock operations. Among the keys to competitiveness in meat processing are large and reliable livestock supplies, low labor costs either through low wages or economies of size, and a profitable market outlet for a full range of meat products and byproducts.

Pronounced differences exist in the preferences for meat expressed by cultures around the world. Americans pay more for white poultry meat, but consumers in other countries place a premium on dark meat, and this dual market has been one of the underpinnings of large U.S. poultry exports. Some major markets are willing to pay higher prices for meat offal than others, again leading to large trade flows. The ability to ship sub-primal and retail cuts to retail outlets around the world has created the opportunity to exploit the differences between countries in their preferences for particular cuts of meat from the same animal species.

Trade barriers, both sanitary and protectionist, have strongly influenced meat trade. The distinction between countries free of foot-and-mouth disease (FMD) and those that are not free largely defines world trade in fresh, chilled, or frozen beef and pork. Bovine spongiform encephalopathy (BSE) virtually ended Britain's beef exports in the late 1990s. In the 1990s, gains were made in eradicating FMD in many countries, but recent outbreaks in Taiwan, Britain, and Argentina provide strong reminders of both the difficulty of control and the damage caused by disease.

The evolution of world and regional trade agreements, such as the World Trade Organization, the North American Free Trade Agreement, and MERCOSUR, has lowered protectionist barriers. However, significant protectionist barriers still remain, such as high tariffs and tariff-rate quotas, which prevent or inhibit significant potential trade in meats.

Large multinational firms are prominent in the meat trade. The success in world trade of the largest firms is likely linked to their ability to achieve economies of size, and perhaps of scope. Achieving such economies lets them compete on the basis of price while providing a variety of meat types, at consistent levels of quality, in large units. Large firms are also more likely to have sales offices and plants in many parts of the world. Maintaining operations in diverse production areas and markets also provides a degree of protection against a shortfall in livestock supplies owing to disease quarantines or natural disaster in any one country.

The outlook for future world meat trade appears to be for more growth, given further liberalization of protectionist barriers, animal disease eradication, economic development, and population growth. If some or all of these changes fail to materialize, trade in meats will show less growth. Greater complexity in trade patterns is likely to accompany trade growth, with more countries importing and exporting meat, and with an increase in countries that both import and export meat and offal from the same animal species.

U.S. firms, marshaling the large U.S. resource base for animal production and the capital and labor resources for meatpacking, have fashioned a meat distribution network that sends cuts to domestic and foreign markets that pay the highest price for each cut. Those firms have become preeminent in the world meat markets, and the United States has become the largest meat-exporting country. Underpinning much of the U.S. export success, especially for poultry meat, are important differences among major foreign regions in preferences for meat cuts, combined with the United States' position as one of relatively few nations with disease-free status for the major meats. If countries with different preferences for meat cuts achieve disease-free status, the United States could see greater imports in the future, especially of chicken breasts. Significant protectionist trade barriers still limit U.S. exports in much of the world. If tariffs, tariff-rate quotas, and nontariff barriers are reduced by future agreements, U.S. exports will continue to grow.

Rural America at a Glance (2003) *(RDRR-97-1)*

www.ers.usda.gov/publications/rdrr97-1

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This six-page brochure highlights the most recent indicators of social and economic conditions in rural areas for use in developing policies and programs to assist rural areas. This brochure is the second in a series of reports that uses current social and economic data to highlight important population, labor market, income, and poverty trends in rural areas. The new metropolitan/nonmetropolitan classification is also discussed. The format of the report incorporates text bullets with charts and maps to make the report easy-to-read and visually interesting. This brochure provides information on key rural conditions and trends for use by public and private decisionmakers and others in efforts to enhance the economic opportunities and quality of life for rural people and their communities.

Food Assistance Research Brief—
The USDA Fruit and Vegetable Pilot Program Evaluation *(FANRR-34-14)*

www.ers.usda.gov/publications/fanrr34/fanrr34-14
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Encouraging children to eat more fruits and vegetables can be a significant challenge. A recent ERS study found one program was very successful in achieving the difficult objective.

Many elementary and secondary students who ate free snacks of fresh and dried fruits and fresh vegetables as part of USDA's Fruit and Vegetable Pilot Program (FVPP) said they improved their eating habits and were more willing to try unfamiliar fruits and formerly disliked vegetables as a result of participating in the pilot. Funded for the 2002-03 school year at $6 million by the 2002 Farm Bill, the pilot program also was considered a success by school staff members.

The pilot operated in 107 U.S. elementary and secondary schools—100 schools in 4 States (25 schools each in Indiana, Iowa, Michigan, and Ohio) and 7 schools in the Zuni Indian Tribal Organization (ITO) in New Mexico. The program's intent was to promote fresh fruit and vegetable consumption among schoolchildren as concern spreads among health experts about the increasing number of overweight and obese children. A large majority of participating schools that responded to a survey about the pilot program believe that it would be feasible to continue the pilot if funding were made available and that the funding of about $94 per student was adequate.

Market Integration *from page 3*

between-country trade. The discrepancy still remaining between internal and cross-border trade in North America suggests that continental markets would become more integrated if all artificial barriers inhibiting cross-border trade and investment were removed.

- The pace of CUSTA/NAFTA-induced market integration in agriculture shows signs of slowing. Bilateral trade intensities reflect the importance of trade between two partners. Indicators of intensity for U.S. agricultural trade with its neighbors rose in the early years post-CUSTA and post-NAFTA, providing evidence that these North American free trade agreements helped deepen continental market integration. Recently, however, the importance of trade between the United States and Canada has reached a plateau, and the significance of trade between the United States and Mexico has declined.

- A common North American currency would increase price transparency, lower transaction costs, and promote integration of continental markets. However, the choice between retaining flexible exchange rates among the NAFTA countries or creating a monetary union between and/or among the United States, Canada, and Mexico has far-reaching ramifications that transcend the single issue of market integration. Policymakers are faced with a tradeoff in making this decision. Is the enhanced efficiency of a single currency worth surrendering the use of national monetary policy to address domestic economic shocks?

- Broadening the CUSTA/NAFTA agenda to include institutional reform would advance the cause of market integration across national borders in North America. The initial focus of CUSTA/NAFTA was the conversion of nontariff barriers to tariffs and the lowering and eventual removal of all tariffs. The adoption of a more universal system of commercial law, common antitrust and regulatory procedures, harmonization of product standards based upon sound science, and better coordination of domestic farm, marketing, and macroeconomic policies would mitigate institutional obstacles that continue to segment markets in North America.

Produce *from page 4*

hold shipper prices below competitive prices was evident for grapefruit, apples, and lettuce, but not for tomatoes, grapes, and oranges. Consumer prices in excess of purely competitive prices were evident for apples, oranges, grapefruit, fresh grapes, tomatoes, and lettuce.

ERS's multiphase project has provided a deeper understanding of the relationship between retailers and shippers, ranging from the form of the transaction to the degree of retailers' influence over prices paid to shippers for some products. Despite these advances, several important questions remain. Specifically, does the presence of market power engender new trends in marketing, such as direct buying from grower-shippers, supply chain management, and fees and services? Or are they the outcome of efforts to gain distribution efficiencies? Making these determinations require additional research.

Also Off Press

Find the latest ERS outlook reports on the web at: www.ers.usda.gov/publications/outlook
In addition to the reports fully summarized in this issue of ERS Information, the following reports were recently released.

Fruit and Tree Nuts Outlook (9/23)
The grower price index for fruit and nuts fell nearly 3 percent below a year ago in August, depicting lower grower prices for nearly all fruit, except for grapefruit, apples, and grapes. Competition from plentiful supplies of a variety of summer fruit drove prices lower for most fruit.

Sugar and Sweetener Outlook (9/23)
The U.S. Department of Agriculture (USDA) announced on August 13, 2003, details of the operation of the sugar program for the 2003 crop year. USDA set the Overall Allotment Quantity (OAQ) for sugar marketing allotments at 8,550,000 short tons, raw value (STRV).

Tobacco Outlook (9/18)
U.S. tobacco production for the 2003 season was forecast at 830.8 million pounds as of September 1. The crop is expected to be 6 percent smaller than last year's 880.7 million pounds.

Livestock, Dairy and Poultry Outlook (9/17)
Relatively weaker milk production and recovering sales led to significantly tightened late summer cheese markets while most other dairy markets stayed fairly soft. The ban on imports of Canadian beef and cattle by the United States since May 20 has created a shortage of market-ready cattle. The continued strong domestic and international beef demand and tight beef supplies have raised U.S. cattle prices to record levels.

Floriculture and Nursery Crops Outlook (9/17)
Sales of floral and nursery crops in 2003 are expected to grow by 1 percent to $14.4 billion (wholesale receipts) from $14.3 billion in 2002. This projection is slightly higher than the 0.6-percent growth from 2001 to 2002, and is in line with a gradually improving general U.S. economy.

Wheat Outlook (9/15)
Projected U.S. 2003/04 ending stocks of wheat are unchanged from last month as a 10-million-bushel reduction in imports is offset by reduced food use. The lower projected food use for 2003/04 is in line with a downward adjustment in use for 2002/03 linked to recently released mill grind estimates by the Census Bureau. The projected price range is down 20 cents on the top end of the range to $3.10 to $3.50 per bushel because of lower-than-expected prices during the first quarter of the marketing year.

Feed Outlook (9/15)
The main changes in this month's feed grain situation are drops in corn and sorghum production. This led to a slight decline in feed grain ending stocks and increased 2003/04 feed grain prices.

U.S. Agricultural Trade Update (9/12)
U.S. agricultural exports in July 2003 rose $551 million from June, while July import gains slowed to only $81 million. The much larger gain in exports than imports, boosts the cumulative surplus for October 2002-July 2003 to $9 billion, indicating the export surplus has turned around and is catching up to the previous year's level.

Cotton and Wool Outlook (9/12)
The latest U.S. Department of Agriculture (USDA) cotton forecast for 2003/04 indicates that world cotton stocks will decline 5 million bales from last season to 32.2 million. This stock level would be the lowest in 9 years and 16 million bales below the 48.1-million-bale record of 1998/99. Despite a rise in world production in 2003/04, global consumption is expected to be above production for the fourth time in 5 years, continuing the decline in stocks.

Rice Outlook (9/12)
There were two supply-side revisions this month to the 2003/04 U.S. supply and use projections. First, beginning stocks were raised 6.6 million cwt to 26.8 million based on data from the August Rice Stocks report. And second, the U.S. 2003 crop projection was raised 3 million cwt to 198.2 million, still 6 percent below a year earlier. The revisions raised total supplies 9.6 million cwt to 240.5 million. Long grain accounted for the bulk of the increase in total supply.

Oil Crops Outlook (9/12)
The forecast for 2003/04 soybean exports was reduced by 60 million bushels this month to 940 million bushels. Less access to supplies could also ration the 2003/04 domestic soybean crush to 1,555 million bushels, well below the previous forecast of 1,625 million. Even with such an extraordinary decline in soybean use, season-ending stocks could dip further from the current minimum pipeline level to 135 million bushels.

Measuring the Effect of Imports of Sugar-Containing Products on U.S. Sugar Deliveries (9/8)
This article analyzes the effects of imports of sugar-containing products on the level of sugar deliveries to U.S. industrial end users of sugar.

Outlook for U.S. Agricultural Trade (8/26)
Fiscal 2004 U.S. agricultural exports are forecast at $57 billion, up $1.5 billion from the revised estimate of $55.5 billion for 2003. Volume of major bulk exports is expected to gain 8 percent to more than 112 million tons.

Vegetables and Melons Outlook (8/21)
The first estimate for the 2003 dry edible bean crop indicates a 19-percent reduction from a year ago, with both harvested area and per-acre yields expected to decline. The first estimate for 2003 fall-season potato acreage indicates a 3-percent decline in planted acreage from a year ago.

China's Exports Outpaced Imports During WTO Year One (8/8)
China became a larger net exporter of agricultural products during calendar year 2002, its first year as a member of the World Trade Organization. Exports of vegetables, fruit, and corn rose by a combined $1 billion. China is emerging as a significant importer of consumer-oriented food products.

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